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FISCAL IMPACT STATEMENT

LS 6577 | **NOTE PREPARED:** Dec 20, 2005
BILL NUMBER: HB 1058 | **BILL AMENDED:**

SUBJECT: Property Tax Abatements.

FIRST AUTHOR: Rep. Heim | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: GENERAL | **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: This bill removes the 2009 expiration of the property tax abatement for the creation or retention of jobs resulting from the development, redevelopment, or rehabilitation of real property or the purchase of personal property.

The bill also provides that, for an increase in assessed value (AV) of more than $1 M, the abatement is provided over five years. (Current law provides that the abatement is provided over three years regardless of the increase in AV.)

Effective Date: January 1, 2007.

Explanation of State Expenditures:

Explanation of State Revenues: The state levies a small tax rate on property for State Fair and State Forestry. Any change in the amount granted for abatements would change the amount received from this tax.

If there is an increase in investment because of the changes in this bill, the new property would, at some point, be placed on the tax rolls and the State Fair and State Forestry funds would receive increased revenues. If the investment would have been made with or without the abatement, then increased revenues to the State Fair and State Forestry funds would be foregone until the property is placed on the tax rolls.

Explanation of Local Expenditures:

Explanation of Local Revenues: Currently, abatements for investment deductions for real property can be applied to property first assessed between March 1, 2005, and March 2, 2009. Abatements for investment deductions for personal property must be purchased between March 1, 2006, and March 1, 2009, and first assessed March 1, 2006, through March 3, 2009. The bill eliminates the ending dates which will allow for abatements assessed or purchased beyond 2009.

Additionally, under existing law, the abatement is allowed for three years. The deduction is first available in the year in which the increase in AV resulting from the development, redevelopment, or rehabilitation occurs and continues for the following two years. The amount of the deduction with respect to real property equals the lesser of $2 M or the product of the increase in AV multiplied by 75% for the first year; 50% for the second; and 25% for the third.

The proposal provides that the deduction would be allowed for five years in the case of an AV increase that is more than $1 M. There would be no change to the number of years allowed in the case of an AV increase that is not more than $1 M.

Currently, the amount of the deduction equals the AV increase multiplied by 75% for the first year; 50% for the second; and 25% for the third. In the case of an AV increase that is more than $1 M, the bill would change the amount of the deduction to the lesser of $2 M or the AV increase multiplied by the percentage from the following table.

Year of Deduction	Percentage
1st	100%
2nd	80%
3rd	60%
4th	40%
5th	20%

The specific amount of AV involved in new abatements is indeterminable. However, if there is an increase in development, redevelopment, or rehabilitation because of the extended use of abatements, the new property would, at some point, be placed on the tax rolls. This addition to the tax base could help spread the property tax burden and could possibly reduce some tax rates. However, if one assumes that the investment would be made with or without the abatement, any increase in abatements could also cause a delay in the shift of the property tax burden from all taxpayers to the owners of the new property until the property is placed on the tax rolls. The impact would depend on the value of new abatements that might be granted beginning with the 2007 Pay 2008 tax year.

Tax Shifts Between Existing and New or Rehabilitated Property. Generally speaking, the addition of AV to the tax base provides a tax shift from existing property owners to the new property owners by spreading the tax levy over a larger tax base. Investment deductions slow this shift as it pertains to property that would have been put in place regardless of the deduction. This shift could also be accelerated if the availability of the deduction results in an increase in development. There would be no effect on the AV of existing property.

Tax Shifts Between Property Classes. The varying rates at which AVs in each class of property grow in relation to each other determine each class's relative share of the tax burden. The extent to which the growth rate for businesses is affected by this bill will determine whether any tax shifts will occur between classes. Regarding property that would have been put in place regardless of the deduction, this bill would shift some taxes from businesses to other property classes. However, any increase in development that is spurred by the deduction would shift taxes from non-business property classes to businesses.

State Agencies Affected: Department of Natural Resources; State Fair Board.

Local Agencies Affected: Counties.

Information Sources:

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